

# FRATERNITY OF ALPHA ZETA - FAQ ABOUT TAXES AND THE FORM 990

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## FAQ Overview

Form 990s. UBI. EINs.

It's like a whole new language, and it can be overwhelming.

The National Office is here to help! We've put together these Frequently Asked Questions to help you understand your chapter's responsibility as it relates to tax-exemption and the Internal Revenue Service (IRS). While no part of this guide should be considered financial advice, we hope this helps steer you in the right direction.

The Fraternity of Alpha Zeta requires that its local chapters be financially and legally separate entities from the national fraternity. With increased scrutiny of nonprofit organizations by the IRS, the Fraternity developed an Affiliate Agreement to help both student chapters and the national fraternity more easily comply with federal guidelines and regulations. Since all chapters must abide by the federal regulations for nonprofit organizations, we know you'll find this information valuable. All chapters have signed the Affiliate Agreement and agreed to be held to these terms.

The Affiliate Agreement outlines in Section (1), Subsection (B) that chapters, also known as affiliates, "...will comply with all applicable laws, regulations and other requirements that may affect its performance of this Agreement. Affiliate shall maintain state corporate and federal and state tax filing including, but not limited to, state qualification to do business reports and any federal and state tax filings (including the IRS Form 990, 990 EZ) and shall furnish copies to Fraternity within thirty (30) days of such filings."

To be considered an Alpha Zeta chapter in good standing (and keep your charter!), each chapter is responsible for meeting the terms of the Affiliate Agreement, which includes filing the IRS Form 990.

## **Your Chapter's Tax Responsibility**

### **What is a Form 990?**

Form 990 (officially, the "Return of Organization Exempt From Income Tax") is a United States Internal Revenue Service form that provides the public with financial information about a nonprofit organization. It is often the only source of such information. Government agencies use it to prevent organizations from abusing their tax-exempt status. There are variants in addition to the Form 990 – the Form 990-EZ and the Form 990-N are the two most common ones.

### **Does our chapter have to file a Form 990 variant with the IRS?**

Generally, yes. Every chapter must file annually with the IRS, except for those who run all their financial affairs through their university. If you run your money through your school and have no separate/independent bank account, the school is likely reporting it as their own revenue (though available for your use), and your chapter likely does not need to file your own Form 990. Please confirm this with your university. But for every other chapter, yes. You need to file.

### **We don't have any net revenue for the year. Do we still have to file a Form 990?**

Yes. And you are required to submit proof of your filing to the National Office.

### **We don't know what form to file. Do we still have to file a Form 990?**

Yes. And you are required to submit proof of your filing to the National Office.

### **Our officers last semester/year didn't do this. Do we still have to file a Form 990?**

Yes. And you are required to submit proof of your filing to the National Office.

**But I don't want to do this. Do we still have to file a Form 990?**

Yes. And you are required to submit proof of your filing to the National Office.

**What happens if we don't file our Form 990?**

If a chapter fails to file a proper Form 990, 990-EZ or 990-N, they may be fined by the IRS, and penalties are high. If they fail to do so for three consecutive years, their tax-exempt status is revoked. This could require that the chapter start paying federal income taxes and possibly even state taxes which could have a significant impact on its operations and, of course, a chapter's funds. Additionally, if a chapter has lost their tax-exempt status and fails to attempt reinstatement, they run the risk of being audited by the IRS. Lastly, your chapter could be put on probation or even have your charter revoked for not complying with the terms of the Affiliate Agreement that your chapter signed.

**So, we must file a Form 990 every single year, unless all our finances run through our university and we're verified with them that they are reporting it as their own revenue?**

Yes. And you are required to submit proof of your filing to the National Office.

**What else should we consider when thinking about our financial responsibility?**

When officer elections are held, it is important that the new and old treasurer meet and discuss the chapter's financial situation. The old treasurer should hand over all past records to the new treasurer, and they should know that filing the Form 990 is one of their responsibilities as treasurer. Because most chapters elect new officers at the end of the year and previous officers graduate, it is imperative your chapter

has a thorough officer transition meeting for all officers so the incoming officers know their responsibilities and are set up to succeed. You may want to reconsider the time of year you hold elections so outgoing officers can provide some guidance as incoming officers get up to speed. Doing elections at the last meeting of the school year when everyone is already thinking about the summer leaves your new officers scrambling to figure out what to do come start of the next school year.

## Tax Designation

### What is our tax designation?

Chapters are considered 501(c)(7) organizations. This is an Internal Revenue Service (IRS) designation stating that the Alumni Association is exempt from federal income tax under the Internal Revenue Code (IRC) 501(a) as organizations described in IRC 501(c)(7) as being “organized for pleasure, recreation and other non-profitable purposes.”

A common misconception is that a chapter is a 501(c)(3) organization as opposed to a 501(c)(7).

The difference is that a 501(c)(3) organization must spend their income on activities that further their exempt purpose, which is a charitable cause. 501(c)(7) social clubs’ exempt purpose does not have to be charitable, but it must be social or recreational and non-profitable. Designation as a 501(c)(7) also allows the group to limit membership. Instead of operating like a business for the public, 501(c)(7) organizations only serve its members.

### Aren’t chapters exempt from all taxes?

Most of a chapter’s revenue is exempt from *federal taxation*. Federal income tax-exempt simply means that if the chapter fills out and files the proper 990 form each year, because the chapter is exempt under IRC 501(c)(7), the chapter does not pay tax on their annual net income. This does not mean your chapter is exempt from paying sales tax, however, as states have their own requirements which vary from state to state. Also, chapters are liable for federal income tax on Unrelated Business Income (UBI). Interest or income from investments are examples of UBI as well as revenue from advertising in chapter newsletters or other publications.

## Filing the Form 990

### What form is our chapter responsible for filing?

The following table outlines what annual forms your chapter is responsible for filling out based upon the annual gross receipts in the given fiscal period.

Fiscal Year Totals	Form to File	Where to File
Gross receipts less than or equal to \$50,000	990-N (E-Postcard)	IRS.gov; file990.org
Gross receipts less than \$200,000 and total assets less than \$500,000	990-EZ or 990	IRS.gov; File990.org
Gross receipts greater than or equal to \$200,000 or total assets less than or equal to \$500,000	990	Local accountant/CPA

*Gross Receipts: The total amount the organization received from all sources of income during its annual period, without subtracting any costs or expenses.*

Most chapters will fall under the Form 990-N, or e-postcard form.

### When do we have to file?

The filing deadline is the 15<sup>th</sup> of the 5<sup>th</sup> month after the chapter's fiscal year. For example, if your fiscal year is the same as the calendar year (January 1 – December 31), your filing deadline is May 15. If you are included in the fraternity's group exemption (see page 9 to learn more about group exemptions), you must fall in the same fiscal year as the national office, which is October 1 – September 30. The filing deadline for those chapter is February 15<sup>th</sup>.

### **Will we owe anything?**

All organizations recognized by the IRS must file a Form 990 even if they do not owe any taxes. Anything over \$1,000 in Unrelated Business Income (UBI) is taxable. If the chapter has gross income of \$1,000 or more in UBI then they must ALSO file Form 990T.

### **What is an EIN?**

If your chapter has a valid Employee Identification Number (EIN), the IRS knows of your existence, and you are recognized by the IRS. By default, the IRS assumes that you are operating a **for-profit business**. You must complete IRS Form 1024 and IRS Form 8718 to become exempt from federal taxes.

### **The chapter has no employees, so why would it have an EIN?**

The IRS uses EINs to track organizations and businesses just as it uses social security numbers to track individuals. IRS requires all banks to relate either a personal social security number or EIN to any account opened—and it's a really bad idea to link a Fraternity bank account to anyone's personal social security number. EIN, TIN, FIN all refer to the same thing, but are acronyms that have been used at different times by the IRS – all refer simply to a federal identification number.

### **How do we file a Form 990 with the IRS?**

If you are filing a Form 990-N, it must be completed and filed electronically at [irs.gov](https://irs.gov). There is no paper form. It's very simple and easy to complete. Generally, it should take you ten minutes or less from start to finish!

If you are filing a Form 990 or 990-EZ, you can do so either electronically at [irs.gov](https://irs.gov) or by mailing in the paper form.

## What do we put on the Form 990-N?

<b>The 990-N asks:</b>	<b>You should fill out:</b>
Organization's legal name	Your chapter name
Any other names your organization uses	N/A
Organization's mailing address	The university mailing address of your adviser or address of you alumni adviser. It is recommended to use this for continuity.
Organization's website	Chapter website, if applicable
Organization's employer identification number	Your chapter EIN
Name and address of the principal officer of your organization	Name and address of your Chancellor
Organization's annual tax period	Whatever your fiscal year is
Verify that your organization's gross receipts are still \$50,000 or less	Yes
Indicated if your organization has terminated	N/A, unless the chapter is closing

## Are there any state requirements?

Possibly. Be sure to check with your state government about filing requirements, too. The rules vary by state. Not all states have requirements, but most do. Just like many individuals must file both federal and state tax returns when they do their taxes, your chapter may as well.

## I've heard about a fraternity group exemption. What is this?

Some chapters are eligible to be included as a subordinate organization of the Fraternity under the Fraternity's group exemption, therefore preventing the need to file a separate application for tax-exempt status with the IRS. Organizations who wish to apply can contact [info@alphazeta.org](mailto:info@alphazeta.org) for more information. Please note that chapters who have had already their tax-exempt status revoked cannot be included on the group exemption to reclaim their tax-exempt status. They must complete the Form 1024 application to reinstate their status.

## **Fundraising and Donations as They Relate to Form 990**

### **Are donations to chapters tax deductible for the donor?**

No. "Tax deductible" refers to a donor being able to deduct the amount of the donation from his/her income, thus reducing his/her taxes.

Donations are only tax deductible when given to a charitable or educational 501(c)(3) organization whereas our chapters and the national fraternity are 501(c)(7) organizations. The Alpha Zeta Foundation is a separate 501(c)(3) organization and was created for the express purpose of being able to receive and manage contributions for educational scholarships and programs. Donations directly to the Foundation ARE tax deductible because the Foundation is a 501(c)(3)

It is important to understand that the chapter is responsible to the National Office, High Council, alumni, students, parents, and other invested parties to show it is a good steward of the money it receives. Disregard for this can go a long way in damaging the reputation of the Fraternity.

The main effect this has on chapters is regarding sponsorships of events or items provided for silent auctions. In no way can the chapter provide a receipt of tax deductibility or promise tax deductibility when accepting the funds for sponsorships. You want to be careful when wording letters to ask for these from area organizations, individuals, or corporations. Consider using the phrase "support for the event" instead of "donation" or "gift."

## Revocation of Tax-Exempt Status

### **How do we know if our tax-exempt status has been revoked?**

If you are unsure whether you have filed your Form 990 during the last three years, it's time to start doing research – fast! You can search the [IRS Exempt Organization Select Check](#) to see if your chapter's status was automatically revoked.

### **Uh oh - we've lost our tax-exempt status. What do we do?**

If a chapter loses its tax-exempt status, it can apply to have its exemption reinstated. This means filing IRS Form 1024 (Application for Recognition of Exemption) and IRS Form 8718 (User Fee Form). It is likely a chapter that has lost its tax-exempt status will be subject to paying federal income tax for the time between the revocation of its exemption and the reinstatement of its exempt status. Therefore, the chapter may choose to request its reinstatement be retroactive to the date of revocation. Such a request can be made as a part of its reinstatement application and is described on the IRS website (<https://www.irs.gov/charities-non-profits/reinstatement-of-tax-exempt-status-after-automatic-revocation>).

To file Form 1024, the chapter must also have an Employer Identification Number (EIN). If the chapter does not have an EIN, you must also file form SS-4, "Application for Employer Identification Number" along with your application for exemption. Even if your chapter does not have any employees, your chapter must have an EIN because this is the number that the IRS uses in maintaining the chapter's tax records.

It is highly recommended to consult with and hire an experienced local resource (CPA or tax attorney) to assist you with reestablishing your tax status. This process is expensive, so be sure to remain current and compliant moving forward! The expertise of a tax professional can

ensure the reinstatement application and supporting documentation is completed and filed properly. You don't want to try to reapply on your own and pay the expensive application fee only to be rejected AND have the IRS keep your money. Spend the time and money to ensure you get it right the first time, then work hard to maintain your tax-exempt status.

Once you have completed the form, please keep a copy for your records and send a copy of this application to the National Office as we will keep an electronic copy as well.

### **Can we just add ourselves on to the national fraternity's group exemption to regain tax-exemption?**

Unfortunately, no. If you've lost your tax-exempt status, you must file Form 1024. You cannot simply add yourself onto the Fraternity's group exemption to get around the process.

### **What if we can't find ourselves on either the revocation list OR the list of those who have filed Form 990-Ns?**

You may never have applied for tax-exemption, or you may be looking under the wrong chapter name (e.g. looking under "Alpha Zeta Virginia Chapter" instead of "Virginia Chapter of the Fraternity of Alpha Zeta"). We suggest contacting the IRS to be sure. If they do not have record of an application or revocation, you will need to apply by submitting the IRS Form 1024 (Application for Recognition of Exemption) and IRS Form 8718 (User Fee Form).

### **How can advisers assist a chapter in reapplying for tax-exempt status?**

The most important thing advisers can do to assist chapters regarding their filing requirements is to help them avoid a scenario where the chapter is facing revocation of its tax-exempt status. The consistent turnover of chapter officers can create an environment in which it is easy to overlook the filing requirements if left to officer transitions.

Advisers provide a continuity that can help to ensure that important but infrequent aspects of chapter operations, such as IRS filing requirements, do not get lost in transition.

If a chapter does lose its tax-exempt status, an adviser can play an important role in helping the chapter understand what it needs to do to apply for reinstatement. Moreover, an adviser can provide an important balance. It is likely that many chapter officers will not understand the potential consequences of losing the tax-exempt status, so advisers can keep the chapter focused on addressing the issue promptly. The IRS website offers lots of information and resources relevant to 501(c)7 organizations, including fraternities and sororities, and advisers should take time to review these resources and familiarize themselves with the information available (<http://www.irs.gov/Charities-&-Non-Profits/Other-Non-Profits>).